

Message Text

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XMB-04 OPIC-06 LAB-04 SIL-01 IGA-02 L-03 H-02
PA-02 PRS-01 AGRE-00 FEA-01 /127 W
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R 091017Z JUN 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 3849
INFO AMEMBASSY BONN
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AMEMBASSY ROME
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AMCONSUL BORDEAUX
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USMTN; PARIS PASS OECD

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 15401, MAY 25, 1977

1. SUMMARY

THE RELATIVE STAGNATION OF THE FRENCH ECONOMY HAS
RESULTED IN A SHARP DOWNWARD REVISION IN THE OFFICIAL
FORECAST OF THE GROWTH IN GROSS DOMESTIC PRODUCT IN
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1977 FROM 4.8 TO 3.5 PERCENT. THE ECONOMY IS
EXPECTED TO CONTINUE IN A SLOW GROWTH PATTERN FOR
THE NEXT FEW MONTHS WITH MOST INDUSTRIALISTS FORE-
SEEING A SLIGHT DECLINE IN INDUSTRIAL PRODUCTION.
SEVERAL POSITIVE FACTORS HAVE EMERGED, HOWEVER,
NAMELY A MUCH LOWER INCREASE IN WAGES DURING THE
FIRST QUARTER, AN IMPROVEMENT IN THE CURRENT ACCOUNT

DEFICIT, AND A DECREASE IN THE VOLUME OF IMPORTS.

2. OFFICIAL 1977 FORECAST REVISED DOWNWARD

THE NATIONAL ACCOUNTS COMMISSION HAS REVISED DOWNWARD THE OFFICIAL FORECAST FOR 1977 MADE LAST SEPTEMBER. THE GROSS INTERNAL PRODUCT IS FORECAST TO GROW BY 3.5 PERCENT IN CONTRAST TO THE ORIGINAL PROJECTION OF 4.8 PERCENT. FOLLOWING IS A BREAKDOWN OF THE TWO FORECASTS:

FORECAST FOR 1977 (IN PERCENT)

	SEPTEMBER 1976	JUNE 1977	
GIP	4.8	3.5	
IMPORTS	7.1	2.8	
HOUSEHOLD CONSUMPTION		4.1	3.6
BUSINESS INVESTMENT	3.1	1.4	
EXPORTS	9.3	7.8	

THE PRIMARY REASON FOR THIS LOWER ESTIMATE IS THE CAUTION BUSINESSMEN HAVE SHOWN TO DATE WITH REGARD TO INVESTMENT. THE ESTIMATE FOR BUSINESS INVESTMENT HAS BEEN REVISED DOWNWARD FROM 3.1 PERCENT TO 1.4 PERCENT. HOUSEHOLD INVESTMENT IS EXPECTED TO FALL BY 2 PERCENT, REFLECTING THE DECLINE IN HOUSING PUR-

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CHASES SINCE 1975, WHILE GOVERNMENT INVESTMENT MAY INCREASE BY ONLY 3 PERCENT. THUS, TOTAL INVESTMENT IS FORECAST TO GROW BY ONLY 0.7 PERCENT.

CONSUMPTION IS EXPECTED TO GROW BY 3.6 PERCENT IN 1977. THE GOF BASES THIS ESTIMATE ON THE EXPECTATION THAT THE FRENCH WILL SAVE A SMALLER PROPORTION OF THEIR INCOME THIS YEAR (16.6 PERCENT AS COMPARED TO 16.8 PERCENT IN 1976 AND 18.6 PERCENT IN 1975.) IT ALSO COUNTS ON THE LARGE INCREASE IN SOCIAL PAYMENTS TO SUSTAIN CONSUMPTION. IT SHOULD BE NOTED THAT DURING THE PAST TEN YEARS, WITH THE EXCEPTION OF 1968-69, CONSUMPTION GREW AT A RATE BETWEEN 4-5 PERCENT EACH YEAR.

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FOREIGN TRADE IS EXPECTED TO BE BACK IN EQUILIBRIUM
BY THIS SUMMER. THE FORECAST FOR THE INCREASE IN
IMPORTS HAS BEEN SHARPLY REVISED DOWNWARD FROM
7.1 PERCENT TO 2.8 PERCENT. EXPORTS ARE FORECAST TO
GROW BY 7.8 PERCENT.

THE RATE OF INFLATION IS FORECAST TO BE 8.0 PERCENT
BETWEEN JANUARY AND DECEMBER 1977 COMPARED TO 9.5
PERCENT IN 1976. WAGES ARE EXPECTED TO INCREASE
BY 10.6 PERCENT DURING THE SAME PERIOD IN CONTRAST
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TO 15.1 PERCENT IN 1976.

COMMENT: MANY OBSERVERS BELIEVE THAT THIS OFFICIAL FORECAST STILL ERRS TOO MUCH ON THE OPTIMISTIC SIDE. THE PARIS CHAMBER OF COMMERCE FORECASTS A 3.2 PERCENT RATE OF GROWTH FOR GIP WHILE OTHERS PLACE THE RATE BETWEEN 2.5 AND 3.0 PERCENT.

3. INDUSTRIALISTS EXPECT FALL IN PRODUCTION DURING COMING MONTHS

ACCORDING TO THE INSEE SURVEY OF INDUSTRIALISTS IN MAY, INDUSTRIAL PRODUCTION, AFTER HAVING INCREASED DURING THE FIRST QUARTER, APPEARS TO HAVE STABILIZED. FOR THE PAST TWO MONTHS BACK ORDERS HAVE DECLINED AND ARE MUCH LOWER THAN NORMAL. FOR INDUSTRY AS A WHOLE, PRODUCTION EXCEEDS DEMAND. STOCKS OF FINISHED PRODUCTS HAVE INCREASED AND APPEAR TOO HIGH. THE ONLY BRIGHT SPOT IS THE STRENGTHENING OF FOREIGN DEMAND. THE OUTLOOK ON THE PART OF MOST INDUSTRIALISTS IS FOR A DECLINE IN PRODUCTION DURING THE NEXT FEW MONTHS. PRODUCTION HAS STABILIZED IN THE ENTIRE CAPITAL

GOODS SECTOR. INDUSTRIALISTS EXPECT A REDUCTION IN ACTIVITY IN ELECTRIC AND ELECTRONIC CONSTRUCTION. ONLY PRECISION MACHINERY SHOULD REGISTER A MODERATE GROWTH IN PRODUCTION.

IN THE CONSUMER GOODS SECTOR PRODUCTION CONTINUES TO INCREASE AT A MODERATE RATE IN THE CLOTHING, LEATHER SHOES AND AUTOMOBILE INDUSTRIES; ON THE OTHER HAND, ACTIVITY HAS DECLINED IN HOUSEHOLD APPLIANCES, AND IT REMAINS STABLE IN TEXTILES. INDUSTRIALISTS THINK THAT IN THE NEXT FEW MONTHS PRODUCTION SHOULD DECLINE IN THE HOUSEHOLD APPLIANCES, AUTOMOBILE AND TEXTILE INDUSTRIES; ELSEWHERE, ACTIVITY SHOULD

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STABILIZE.

THE TREND IN PRODUCTION VARIES VERY MUCH BY INDUSTRY BRANCH IN THE INTERMEDIATE GOODS SECTOR. PRODUCTION IS STABLE IN THE PAPER-CARDBOARD AND PRIMARY METAL TRANSFORMATION INDUSTRIES BUT LOWER IN THE WOOD-FURNITURE AND CONSTRUCTION MATERIAL INDUSTRIES. IN OTHER BRANCHES, PRODUCTION HAS SLOWED DOWN WITH THE EXCEPTION OF THE STEEL INDUSTRY WHERE THERE HAS BEEN AN INCREASE IN ACTIVITY. INDUSTRIALISTS EXPECT A FALL IN PRODUCTION FOR THE ENTIRE SECTOR WITH THE EXCEPTION OF THE GLASS INDUSTRY.

4. STAGNATION OF INDUSTRIAL PRODUCTION QUITE

POSSIBLE FOR NEXT FEW MONTHS

THE POSSIBILITY OF INDUSTRIAL PRODUCTION REMAINING AT ITS CURRENT LEVEL FOR SEVERAL MONTHS CANNOT BE EXCLUDED, WRITES INSEE IN ITS SEMI-ANNUAL PROGNOSIS OF THE ECONOMY. HOWEVER, THIS PAUSE, OF A TECHNICAL NATURE, SHOULD BE OF A SHORT DURATION AND PRODUCTION SHOULD THEN RESUME ITS RATE OF GROWTH OF 3 PERCENT PER YEAR WHICH HAS BEEN OBSERVED SINCE THE END OF 1976. INSEE FORESEES WITHIN SEVERAL MONTHS A HIGHER LEVEL OF ACTIVITY SUSTAINED BY THE EXPORT SECTOR.

COMMENT: THE INSEE FORECAST IS MORE LIKELY TO BE ON TARGET THAN THE INDUSTRIALISTS' OWN FORECASTS, GIVEN THE PAST VOLATILITY OF THE LATTER INDICATOR.

5. AUTOMOBILE INDUSTRY LOSING SPEED

THE FRENCH AUTOMOBILE INDUSTRY, A STAR PERFORMER IN A LACKLUSTER ECONOMY, SHOWS SIGNS THAT ITS BOOM MAY HAVE FINALLY PEAKED. PRODUCTION OF PRIVATE CARS IN UNCLASSIFIED

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XMB-04 OPIC-06 LAB-04 SIL-01 IGA-02 L-03 H-02
PA-02 PRS-01 AGRE-00 FEA-01 /127 W
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FM AMEMBASSY PARIS
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INFO AMEMBASSY BONN

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APRIL INCREASED BY ONLY 3 PERCENT COMPARED TO APRIL 1976 WHILE TOTAL PRODUCTION INCREASED BY ONLY 0.2 PERCENT. EXPORTS FOR THIS PERIOD FELL BY 10.5 PERCENT, WHICH, IN PART, MAY HAVE BEEN DUE TO THE EXCEPTIONALLY HIGH LEVEL OF EXPORTS IN APRIL 1976. DOMESTIC DEMAND, WHICH WAS VERY STRONG IN THE FIRST QUARTER, ALSO APPEARS TO HAVE WEAKENED.

6. NEW PRICE CONTROL MEASURES ANNOUNCED

REACTING TO THE UNEXPECTEDLY LARGE PRICE INCREASES
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IN APRIL, PARTICULARLY FOR FOOD PRODUCTS, THE NATIONAL PRICE COMMITTEE HAS JUST ANNOUNCED SEVERAL NEW MEASURES TO LIMIT PRICES. THE PRINCIPAL MEASURES ARE:

(A) WHOLESALERS WILL NO LONGER BE COMPLETELY FREE TO SET THEIR SELLING PRICES AND WILL INSTEAD BE SUBJECT TO A MAXIMUM ON THE AVERAGE MARGIN BETWEEN THEIR BUYING AND SELLING PRICES.

(B) FIRMS WHICH HAVE NOT RESPECTED THEIR AGREEMENTS WITH THE GOF TO MODERATE PRICES WILL BE PLACED AGAIN UNDER AN ADMINISTRATIVE REGIME WHICH WILL FIX PRICES.

(C) IMPORTERS WILL HENCEFORTH BE REQUIRED, AS INDUSTRIALISTS CURRENTLY ARE, TO DEPOSIT THEIR PRICE LISTS AND THEIR SALES CONDITIONS WITH THE GENERAL ADMINISTRATION OF COMPETITION AND PRICES.

7. PUBLIC SECTOR WAGES INCREASED BY 2.5 PERCENT

THE WAGES OF GOVERNMENT AND MILITARY PERSONNEL WERE INCREASED BY 2.5 PERCENT ON JUNE 1, NOT 1.5 PERCENT AS REPORTED IN PARIS 15746. THIS IS AN INCREASE OF 4.0 PERCENT IN PUBLIC SECTOR WAGES FOR THE FIRST HALF OF THE YEAR. THE PATRONAT HAS

RECOMMENDED A 4.5 PERCENT INCREASE IN PRIVATE
SECTOR WAGES FOR THE FIRST SEMESTER--I.E., EFFECTIVE
JULY 1.

8. SMALL INCREASE IN HOURLY WAGES DURING FIRST QUARTER

WORKERS' HOURLY WAGES INCREASED BY ONLY 2.3 PERCENT
DURING THE FIRST QUARTER OF THIS YEAR COMPARED TO
INCREASES OF 4.0, 4.0, 3.4, AND 2.9 PERCENT FOR THE
FOUR QUARTERS OF 1976. THIS WAS THE SMALLEST INCREASE
IN HOURLY WAGES SINCE 1969. THE INCREASE IN PURCHASING
POWER FOR WORKERS WAS 0.4 PERCENT WHICH INDICATES THAT
THE BARRE PLAN IS MAKING HEADWAY IN STABILIZING
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PURCHASING POWER. THE LABOR MINISTRY EXPLAINED THAT
THIS INCREASE IN PURCHASING POWER WAS DUE TO WAGE
ADJUSTMENTS RESULTING FROM CONTRACTS PREDATING THE
BARRE PLAN. FOR THE 12 MONTH PERIOD ENDING IN MARCH,
HOURLY WAGES INCREASED BY 13.1 PERCENT (3.4 PERCENT
INCREASE IN PURCHASING POWER).

9. NUMBER OF EMPLOYED REGISTERS FURTHER FALL

FOR THE THIRD QUARTER IN A ROW THE NUMBER OF SALARIED
EMPLOYEES IN INDUSTRY AND COMMERCE DECLINED DURING
THE FIRST QUARTER OF 1977. AFTER INCREASES OF 0.1
PERCENT AND 0.9 PERCENT IN THE FIRST AND SECOND
QUARTERS OF 1976, EMPLOYMENT FELL BY 0.1 PERCENT, 0.4
PERCENT, AND 0.3 PERCENT IN THE THREE FOLLOWING QUARTERS.
THE LEVEL OF EMPLOYMENT IN APRIL FELL TO ITS LEVEL A
YEAR AGO AND WAS 4 PERCENT LOWER THAN IN 1974.

10. VOLUME OF FRENCH IMPORTS HAS DECLINED

RECENTLY RELEASED FRENCH TRADE DATA FOR MARCH
VERIFY THE RECENT FALL IN THE VOLUME OF IMPORTS AND
THE CONTINUED SHARP INCREASE IN IMPORT AND EXPORT
UNIT VALUES. THE VOLUME OF IMPORTS FELL BY 5.1
PERCENT FOR THE SIX MONTH PERIOD ENDING IN MARCH
BUT INCREASED BY 7.6 PERCENT FOR THE TWELVE MONTH
PERIOD. EXPORTS INCREASED BY 5.7 PERCENT FOR THE
SIX MONTH PERIOD AND 10.2 PERCENT FOR THE TWELVE
MONTH PERIOD. IMPORT UNIT VALUE INCREASED BY 7.2
AND 18.3 PERCENT RESPECTIVELY FOR THE SIX AND TWELVE
MONTH PERIODS WHILE EXPORT UNIT VALUES INCREASED
BY 6.0 AND 14.2 PERCENT.

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11. LONG-TERM EXTERNAL FRENCH BORROWINGS

THE FOLLOWING LONG-TERM EXTERNAL BORROWINGS HAVE BEEN
NOTED IN THE PRESS DURING THE REPORTING PERIOD:

(A) CREDIT LYONNAIS, \$30 MILLION, 6 YEARS, VARIABLE
RATE, ASIA MARKET. (ACCORDING TO THE PRESS REPORT, THIS
IS THE FIRST TIME THAT A EUROPEAN COMMERCIAL BANK HAS
BORROWED ON THIS MARKET.)

(B) COMPAGNIE GENERALE MARITIME ET FINANCIERE,
\$50 MILLION, 7 YEARS, FLOATING INTEREST.

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12. WOMEN TO BE GIVEN RETIREMENT AT AGE 60

THE NATIONAL ASSEMBLY HAS VOTED TO GRANT RETIREMENT WITH FULL PENSION TO WOMEN AT AGE 60 WHO HAVE PAID 37-1/2 YEARS OF SOCIAL SECURITY PAYMENTS. THIS PROGRAM, WHICH WILL BE IMPLEMENTED OVER THE NEXT TWO YEARS, IS EXPECTED TO AFFECT APPROXIMATELY 40,000 WOMEN AND WILL COST ABOUT FF 515 MILLION IN 1978 AND FF ONE BILLION IN 1979 (SEE PARIS A-211).

13. LARGE IMPROVEMENT IN SEASONALLY ADJUSTED CURRENT ACCOUNT DURING FIRST QUARTER 1977

PROVISIONAL BALANCE OF PAYMENTS DATA FOR THE FIRST QUARTER OF 1977 SHOW A LARGE IMPROVEMENT FROM THE PREVIOUS QUARTER IN THE SEASONALLY ADJUSTED CURRENT ACCOUNT DEFICIT. THIS DEFICIT FELL FROM FF 9.9 BILLION IN THE FOURTH QUARTER OF 1976 TO FF 6.9 BILLION. ON AN UNADJUSTED BASIS THE CURRENT ACCOUNT DEFICIT (FF 8.3 BILLION) SHOWED NO CHANGE BETWEEN THE TWO QUARTERS SINCE THE RECENT DECLINE IN THE TRADE DEFICIT WAS OFFSET BY A LARGELY SEASONAL REDUCTION IN THE SURPLUS ON THE SERVICE ACCOUNT. NEVERTHELESS, THE SERVICE ACCOUNT REGISTERED A SURPLUS OF FF1.1 BILLION IN CONTRAST TO A SMALL DEFICIT FOR THE SAME QUARTER IN 1976. THE DEFICIT ON THE TRANSFERS WAS FF 2.7 BILLION.

THE LONG TERM CAPITAL ACCOUNT SHOWED A NET OUTFLOW OF FF 1.5 BILLION IN CONTRAST TO A NET INFLOW OF FF 2.8 BILLION IN THE FOURTH QUARTER 1976. THE MINISTRY OF ECONOMICS AND FINANCE ATTRIBUTES THIS MAINLY TO A SHARP DECREASE IN FOREIGN BORROWING ON THE PART OF FRENCH COMPANIES. FOREIGN BORROWINGS DECLINED FROM FF 7.4 BILLION IN THE FOURTH QUARTER 1976 TO FF 4.0 BILLION IN THE FIRST QUARTER 1977. THE NET DEFICIT ON UNCLASSIFIED

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PORTFOLIO AND DIRECT INVESTMENT WAS FF 1.3 BILLION, WHICH WAS SLIGHTLY LARGER THAN THAT OF THE FOURTH QUARTER IN 1976 BUT MUCH SMALLER THAN THOSE OF THE THREE PREVIOUS QUARTERS, PARTICULARLY THE FIRST QUARTER 1976 WHICH REGISTERED A DEFICIT OF FF 3.2 BILLION. DURING THE FIRST QUARTER 1977 THE NET OUTFLOW ON THIS ACCOUNT WAS DUE PRIMARILY TO PORTFOLIO OPERATIONS SINCE FRENCH INVESTMENT ABROAD AND FOREIGN INVESTMENT IN FRANCE PRACTICALLY OFFSET EACH OTHER. LONG TERM EXPORT CREDITS REGISTERED A NET OUTFLOW OF FF 3.4 BILLION --ABOUT THE SAME LEVEL AS IN THE THREE PREVIOUS QUARTERS. THE SURPLUS ON THE SHORT-TERM CAPITAL ACCOUNT INCREASED FROM FF 5.2 BILLION IN THE FOURTH QUARTER 1976 TO FF 6.9

BILLION.

FRENCH BALANCE OF PAYMENTS

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(IN BILLIONS OF FRANCS, DATA FOR FIRST
QUARTER 1977 PRELIMINARY; DATA FOR THIRD
AND FOURTH QUARTER 1976 REVISED)

76II 76III 76IV 1976 77-I

TRADE BALANCE	-1.5	-8.8	-9.1	-22.9	-6.8
NET SERVICES	1.8	0.0	2.7	4.5	1.1
BAL. ON GOODS & SERVICES	0.3	-8.8	-6.4	-18.5	-5.7

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NET TRANSFERS -2.7 -3.3 -2.1 -10.6 -2.7
BAL. ON CUR. ACCT. -2.5 -12.1 -8.5 -29.0 -8.3
LONG TERM CAPT.,NET -1.9 -2.5 #2.8 -4.8 -1.5
BASIC BALANCE -4.4 -14.6 -5.7 -33.8 -9.8
SHORT TERM CAPT, 2.6 7.6 5.2 15.6 6.9
MONETARY TRANSFERS PLUS
ERRORS & OMISSIONS

BALANCE -1.7 -7.0 -0.5 -18.2 -2.9

14. OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS

PARIS

15337 - PARIS CLUB MEETING ON ZAIRE
15722 - CASE-POCLAIN ACQUISITION BID
15746 - APRIL PRICE RESULTS

AIRGRAMS

PARIS

A-196 - FRENCH FOREIGN EXCHANGE HOLDINGS
A-197 - TRADE WITH SOVIET BLOC, ALBANIA, CHINA, NORTH
KOREA, VIETNAM, OUTER MONGOLIA, AND CUBA
FIRST QUARTER 1977
A-199 - TRADE WITH COMMUNIST AREAS, MARCH 1977
A-205 - FRANCE'S INDICES OF INDUSTRIAL PRODUCTION
A-209 - FRENCH FOREIGN EXCHANGE HOLDINGS
GAMMON

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